

Utility Executives Differ Over Power Generation Fuel of Choice

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HOUSTON, Feb. 12 -- Energy executives touted gas, coal, and nuclear as the fuel choices of the future for power generation and downplayed renewable resources Tuesday at UBS Warburg's global energy and utilities conference in New York.

Tom Capps, CEO of Dominion Resources Inc., Richmond, Va., maintained gas was king; Knut Simonsen, executive vice-president of DTE Energy Co. boosted coal; and Exelon Corp.'s Co-CEO Corbin McNeill, clung to nuclear. The executives touted fuel diversity but for the most part discounted renewable fuels.

Dominion owns natural gas reserves that accompany its 22,000 Mw of electricity capacity, Capps said. Excluding the major oil and gas companies, Dominion is the fifth largest gas producer in the US. Dominion dominates the Northeast where it generates one-third of the electricity in Connecticut and provides one-third of the natural gas sold in New York state.

"I believe you have to be No. 1 or 2 in a given market," Capps said. "We are the largest Btu provider in the Northeast." While describing himself as a believer in all fuels, he clearly favored gas. "Gas is the fuel of the future," Capps said. "We like having gas. We can sell it, store it, generate electricity with it, and trade around it."

He discounted present low prices. Conditions are changing to create the "perfect storm" for gas prices to escalate, Capps predicted. The decline rate of most gas fields is averaging around 20%/year, meaning that a hot summer and cold winter combined with a recovering economy will make gas prices jump. By 2003, Capps expects prices to climb to \$3.10-\$3.60/Mcf.

Simonsen said coal has advantages for power generation since it contributes to energy independence, is cheap, and is less of an attraction for terrorists. "The prospects are good for existing coal-fired generation to survive," said Simonsen.

Because of cheap production costs, coal-fired generation is not expected to be displaced by gas-fired generation. Simonsen said gas-fired generation won't displace coal-fired generation unless environmental policy dictates it.

However, Simonsen didn't expect a lot of new coal-fired plants to be built, despite the announcements in the last 2 years of about 100 new plants. Instead, he expects existing plants to be expanded and upgraded. Simonsen said he supported the federal research and development effort to come up with a zero emissions power plant.

Also recognizing the environmental downside to coal, McNeill claimed nuclear power plants will continue to be part of the future fuel mix for the US. "We will need a fuel that fits into energy independence, environmental constraints, and cheap cost structure. Nuclear power will be part of that," said McNeill.

The industry will keep boosting the existing fleet's efficiency, he said. Exelon was able to squeeze an extra 1,000 Mw of capacity from its plants with upgrades that cost less than \$200/kw. Building new plants will take longer than he thought. "I use to think it would take 4-6 years to build a new nuclear power plant. Now I think it will take 8-9 years," he said.

He also conceded recent events have taken a toll on the future of nuclear power. "Last spring nuclear power was the glory child of the future; now it is clouded by the specter of terrorism," he said. "But despite the security issues we can construct new nukes that are safe and secure."